

PUBLIC DISCLOSURE

MARCH 8, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

THE NEEDHAM COOPERATIVE BANK

**1063 GREAT PLAIN AVENUE
NEEDHAM, MA 02492**

**DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **THE NEEDHAM CO-OPERATIVE BANK (or the "Bank")** prepared by the Division, the institution's supervisory agency, as of **March 8, 2005**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

The Needham Co-operative Bank's overall CRA performance reflects the degree of its commitment in helping to meet the credit needs within its defined assessment area. The Bank was evaluated according to the CRA Large Institution Examination Procedures, involving three tests: the Lending Test, the Investment Test and the Service Test. These tests were conducted to determine the Bank's overall CRA performance rating for calendar years 2003 and 2004.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

The following table indicates the performance level of **THE NEEDHAM CO-OPERATIVE BANK, NEEDHAM, MASSACHUSETTS**, with respect to the lending, investment, and service tests.

PERFORMANCE TESTS The Needham Cooperative Bank			
Performance Levels	Lending*	Investment	Service
Outstanding			
High Satisfactory			
Satisfactory	X	X	X
Needs to Improve			
Substantial Non-Compliance			

*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

Demographic and Economic Data

The Needham Co-operative Bank is a \$442.87 million institution headquartered at 1063 Great Plain Avenue in Needham, Massachusetts. The Bank operates 4 full-service offices that are all located in Norfolk County with a full-time equivalent staff of 38 individuals.

Consistent with its mutually-owned bank origins, the Bank is primarily a residential mortgage lender. As shown by the data in the following table, loans secured by 1 to 4 family residential properties account for 59.3 percent of the Bank's \$281.1 million in outstanding loans.

Loan Distribution as of December 31, 2004		
Loan Type	Dollar Amount \$(000)	Percent (%)
Secured by:		
Construction and Land Development	82,075	29.2
1-4 Family Residential Properties	166,629	59.3
Multi Family (5 or more) Residential Properties	1,566	0.6
Nonfarm Nonresidential Properties	30,171	10.7
Consumer Loans	1,193	0.4
Other Loans	54	0.0
Less Unearned Income	-551	-0.2
Total	281,137	100.0

Source: Report of Condition

The Bank is not a participant in the secondary mortgage market and retains both adjustable and fixed rate mortgages in its portfolio.

The Bank's FFIEC Call Report data was utilized to determine the average loan-to-asset ratio for the last eight quarters, beginning March 31, 2003 and ending December 31, 2004. The data indicated that the net loan-to-asset ratio for that period averaged 56.4 percent. Beginning June 30, 2003 net loans to assets increased from a low of 50.1 percent to a high of 62.6 percent as of December 31, 2004. The average net loan-to-deposit ratio for the last eight quarters ending December 31, 2004, was 87.5 percent.

The Bank's assets increased an average of 4 percent between March 31, 2003, and December 31, 2004. An average increase in deposits of 1.4 percent was noted for the same period. The Needham Co-operative Bank offers real estate, consumer and commercial credit products. These products include, but are not limited to, the following: residential mortgages with terms of up to 30 years; construction loans; first-time homebuyer loan products; automobile loans; collateral loans; home equity closed-end loans; home equity lines of credit; home improvement loans; secured and unsecured personal loans; commercial real estate loans; and small business loans.

DESCRIPTION OF INSTITUTION (CONTINUED)

The Division last examined the Bank for compliance with the CRA on April 1, 2002. The Federal Deposit Insurance Corporation ("FDIC") examined the Bank for compliance with the CRA on April 31, 2002. Both examinations resulted in an overall rating of "Satisfactory." The performance rating for the current examination is based upon the Bank's lending for calendar years 2003 and 2004. Calendar year 2003 Home Mortgage Disclosure Act ("HMDA") data is presented along with aggregate data. Comparisons will also be made to 2000 census data for owner-occupied households as well as all households. Residential real estate home purchases and refinanced loans were strong in 2003 when interest rates were declining. Greater weight will be given to the Bank's performance for real estate lending versus small business lending given that the Bank's primary focus is residential real estate lending.

There are no apparent financial or legal impediments that would limit the Bank's ability to help meet credit needs within the assessment area. Based upon The Needham Co-operative Bank's financial condition, size, product offerings, and branch network, the Bank's ability to meet community credit needs remains strong.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to define an assessment area by which its CRA performance will be evaluated. The Needham Co-operative Bank has defined its assessment area to include the Towns of Dover, Medfield, Needham, Wellesley, and Westwood.

The defined area is situated in Norfolk County approximately 10 miles southwest of Boston and is entirely within the Boston Metropolitan Statistical Area ("MSA"). The assessment area contains 17 census tracts, all of which are categorized as upper-income. Based on the 2000 census, the assessment area has a total population of 87,472 and is residential in character.

The following table shows demographic information concerning the assessment area for 2003.

Demographic Information for Full Scope Area: Boston Metropolitan Statistical Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	17	0.00	0.00	0.00	100.00
Population by Geography	87,472	0.00	0.00	0.00	100.00
Owner-Occupied Housing by Geography	25,492	0.00	0.00	0.00	100.00
Business by Geography	7,524	0.00	0.00	0.00	100.00
Farms by Geography	123	0.00	0.00	0.00	100.00
Family Distribution by Income Level	23,121	7.20	8.97	14.84	68.98
Distribution of Low and Moderate Income Families throughout AA Geographies	3,740	0.00	0.00	0.00	100.00
Median Family Income HUD Adjusted Median Family Income for 2003 Households Below Poverty Level		68,341 80,800 9.16%	Median Housing Value Unemployment Rate (2000 US Census)		245,511 2.28%

Source: 2000 US Census and 2003 HUD updated MFI

In June 2003, new MSA boundaries were defined by the Office of Management and Budget ("OMB") to be effective January 2004. The new definitions resulted in changes to the boundaries of many existing MSAs and the creation of new statistical areas – Metropolitan Divisions ("MD"s). These changes affected the Bank's assessment area as it is now comprised of the Boston-Quincy MD. As a result, the median family income decreased for the area from \$68,341 to \$62,948, thus lowering the number of low- and moderate-income families throughout the assessment area.

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

The following table shows pertinent demographic information concerning the assessment area for 2004.

Demographic Information for Full Scope Area: Boston – Quincy Metropolitan Division					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	17	0.00	0.00	0.00	100.00
Population by Geography	87,472	0.00	0.00	0.00	100.00
Owner-Occupied Housing by Geography	25,492	0.00	0.00	0.00	100.00
Business by Geography	7,512	0.00	0.00	0.00	100.00
Farms by Geography	129	0.00	0.00	0.00	100.00
Family Distribution by Income Level	23,121	6.49	7.81	13.51	72.19
Distribution of Low and Moderate Income Families throughout AA Geographies	3,306	0.00	0.00	0.00	100.00
Median Family Income HUD Adjusted Median Family Income for 2004 Households Below Poverty Level		62,948 75,300 11.12%	Median Housing Value Unemployment Rate (2000 US Census)		224,547 2.55%

Source: 2000 US Census and 2004 HUD updated MFI

The market in which the Bank operates is highly competitive. Based on the 2003 HMDA aggregate data, there were 311 HMDA reporters that originated at least one home mortgage loan in the Bank's assessment area. Competitors include local and regional banks and large national mortgage companies.

The assessment area's real estate prices are among the highest in the state and continue to increase. In 2004, the median sales price¹ for a single family home ranged from a low of \$525,000 in Westwood to a high of \$843,750 in Weston. The incomes of many local residents and those interested in relocating to the area are not keeping pace with the growth in the cost of housing.

Although residential in character, the assessment area also has a diverse business base. Based on 2004 Business Geodemographic Data, the assessment area is home to 7,512 business establishments. Approximately 48 percent of these establishments are centered in the services industry. Retail trade businesses and those involved in finance, insurance, and real estate also comprise a significant share of the local businesses. Approximately 64 percent of the assessment area's businesses are considered "small businesses" as their gross annual revenues are less than one million dollars. In terms of number of employees, GTE Government Systems, Coca-Cola, Medfield State Hospital, Wellesley College, and Sun Life are among the area's larger employers.

A community contact was made with a social services agency that provides group housing for the area's developmentally challenged population. Most of the residents of the group homes are at poverty level.

¹ These prices were reported by Banker and Tradesman

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Scope of Evaluation

This performance evaluation assesses the Bank's performance under the Lending, Investment, and Service Tests for the period January 1, 2003 through December 31, 2004. The evaluation included an analysis of HMDA reportable loans and small business loans reported during the period as well as community development lending. Small business loans, as defined in the Consolidated Report of Condition and Income (Call Report) are loans that have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans. In addition, residential loan data of competing institutions was analyzed for 2003, the latest data available for comparison of aggregate residential loan information.

LENDING TEST

The institution's Lending Test performance was rated an overall "Satisfactory." The institution's lending efforts are rated under the seven performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, Innovative or Flexible Lending Practices, Fair Lending, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the Bank's performance.

I. Lending Activity

HMDA Loans

From January 1, 2003, through December 31, 2004, the Bank originated 365 HMDA-reportable loans totaling \$138,193,000. As the following table indicates, the majority of home mortgage loans were originated within the assessment area. Of the total HMDA loans originated during this period, 234 or 64.10 percent by number and 63.08 percent by dollar volume, were granted within the Bank's assessment area. Although both the number and dollar volume of the Bank's loans are considered, the number of originations is weighed more heavily than the dollar volume.

<i>Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area</i>								
<i>Year</i>	<i>Inside</i>				<i>Outside</i>			
	<i>Number of Loans</i>		<i>Dollar in Loans (000s)</i>		<i>Number of Loans</i>		<i>Dollars in Loans (000s)</i>	
	<i>#</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<i>2003</i>	147	65.92	48,512	63.92	76	34.08	27,383	36.08
<i>2004</i>	87	61.27	38,657	62.05	55	38.73	23,641	37.96
<i>Total</i>	234	64.10	87,169	63.08	131	35.89	51,024	36.92

Source: HMDA LAR, Cra Wiz

Of the 364 lenders that originated and purchased HMDA-reportable loans within the assessment area in 2003, the Bank ranked 24th in market share with .86 percent. Washington Mutual Bank, FA had the largest market share with 9.00 percent and GMAC Mortgage Corporation was second with 8.00 percent market share

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

LENDING TEST (CONTINUED)

Small Business Loans

The Bank originated 17 small business loans for a dollar total of \$8,057,000. Of the total small business loans, 52.9 percent of the total number was originated within the assessment area and 47.1 percent of the dollar volume was originated within the assessment area. Unlike HMDA lending, the Bank's lending ratios indicate a slight increase within the assessment area in 2004. Refer to the following small business table for more detailed information.

<i>Distribution of Small Business Loans Inside and Outside of the Assessment Area</i>								
<i>Year</i>	<i>Inside</i>				<i>Outside</i>			
	<i>Number of Loans</i>		<i>Dollar in Loans (000s)</i>		<i>Number of Loans</i>		<i>Dollars in Loans (000s)</i>	
	<i>#</i>	<i>%</i>	<i>\$</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<i>2003</i>	2	50.0	1,160	58.0	2	50.0	841	42.0
<i>2004</i>	7	53.8	2,638	43.6	6	46.2	3,418	56.4
<i>Total</i>	9	52.9	3,798	47.1	8	47.1	4,259	52.9

Source: CRA Data Collection

Although The Needham Co-operative Bank is a source of credit for local business customers, commercial lending remains a small part of the Bank's lending strategy and is primarily done as an accommodation to customers. In terms of market rank, the limited number of small business loans originated by the Bank makes a market comparison impractical. Because of the low volume of reportable small business loans any further analysis will not be considered in this report.

Not reflected in the above table are the loans extended to local area builders to construct residential housing. From January 1, 2003 to December 31, 2004, the Bank originated 161 residential construction loans with original balances totaling \$128.9 million. Of these credits, 119 loans totaling \$91.6 million financed the construction of residences within the assessment area. This equates to 73.9 percent by number and 71.0 percent by dollar volume. Construction financing represents an important credit need for the local area businesses engaged in real estate development. No market share data for the construction lending is available for comparative purposes.

II. Geographic Distribution

The geographic distribution of loans was reviewed to assess how well the Bank is addressing the credit needs throughout the assessment area. Since the census tracts that make up the assessment area are exclusively upper income, less weight is placed on this performance criterion and more emphasis is given to the analysis of lending by borrower income. Nonetheless, the geographic distribution appears adequate and is consistent with the area's demographics and the Bank's branch locations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

LENDING TEST (CONTINUED)

Since January 1, 2003, the Bank has originated home mortgage loans in all census tracts. The highest concentration of home mortgage lending was within Needham's five census tracts. This high concentration of lending is expected considering the Bank's long time presence in that community and the fact that 34 percent of the area's owner-occupied housing stock is in this town. The Town of Dover's one census tract accounted for the next largest share of the home mortgage lending. Most of the remaining home mortgage loans were distributed among census tracts in Medfield, Wellesley, and Westwood. Loan volume in these communities is enhanced by the branch office presence in those towns.

The distribution of the construction lending is similar to that of the home mortgage lending. Specifically, the highest concentration of lending is within the town of Needham with a strong penetration in the towns of Dover, Medfield, Wellesley and Westwood.

III. Borrower Characteristics

The distribution of loans reflects good penetration among borrowers of different income levels. For comparison purposes, the distribution of the assessment area's 30,185 households by borrower income level and 2003 aggregate data is indicated in the following table.

<i>Distribution of HMDA Loans by Borrower Income</i>								
<i>Median Family Income Level</i>	<i>% Total Households¹</i>	<i>Aggregate Lending Data* (% of #)</i>	<i>2003**</i>		<i>2004**</i>		<i>Total</i>	
			<i>2003</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>
<i>Low</i>	11.88	1.58	11	7.48	3	3.16	14	5.79
<i>Moderate</i>	8.64	5.70	17	11.56	13	13.68	30	12.40
<i>Middle</i>	12.60	14.26	39	26.53	11	11.58	50	20.66
<i>Upper</i>	66.88	58.89	64	43.54	65	68.42	129	53.30
<i>NA</i>	0.00	19.58	16	10.88	3	3.16	19	7.85
<i>Total</i>	100.0	100.00	147	100.0	95	100.0	242	100.0

Source: ¹U.S. Census, *HMDA Aggregate Data, **HMDA LAR

The Bank's lending to borrowers of different income levels can be compared favorably to the percent of total households within the assessment area. The Bank's lending among low- and moderate-income borrowers, at 7.48 percent and 11.56 percent, respectively, is at a level that's considerably above the aggregate figures. Aggregate lending among low- and moderate-income borrowers show figures of 1.58 percent and 5.70 percent, respectively.

Also indicated in the above table is the concentration of The Needham Co-operative Bank's residential mortgage loans among upper-income borrowers. This is consistent with the distribution of total households within the assessment area, which indicates approximately 66.8 percent of total households as upper-income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

LENDING TEST (CONTINUED)

The proportion of loans made to low- and moderate-income borrowers was relatively high for the review period. This is also true for dollar volume. Although the loans to low-income individuals is proportionately lower than the 11.88 percent of low-income households, the penetration is reasonable considering that approximately 3.46 percent of the households are below the poverty level and could not afford the costs associated with homeownership.

Nevertheless, the Bank's level of lending among moderate-income borrowers remained relatively high in 2004. The Bank has maintained a good level of activity in this category. As indicated in other parts of this evaluation, the Bank offers in-house and government sponsored affordable housing programs to assist lower income individuals achieve homeownership. These programs offer expanded debt-to-income ratios and lower downpayment requirements.

In terms of the construction lending, there was no information available concerning the gross annual revenues of the homebuilders obtaining financing from the Bank. The average loan size, however, was \$770,000. This high average loan amount is attributed to the strong demand for high-end housing in the local area. Also, several of the loans were multi-million dollar loans that financed the construction of more than one residence.

IV. Community Development Lending

The Needham Co-operative Bank's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent the institution has demonstrated leadership in community development lending.

The Needham Co-operative Bank has an adequate level of community development loans for an institution of its size and resources. For the period reviewed, the Bank provided community development financing totaling more than \$5.8 million in the form of construction financing that promoted affordable housing. Construction financing was on properties in Needham and Dover. On August 7, 2003, the Bank provided construction financing totaling \$1,920,000 for an 8-unit condominium project in Needham, of which 2 units will be maintained in perpetuity as affordable under the Massachusetts General Law Chapter 40B guidelines that allow for no more than 30 percent of gross income for debt service, insurance, and condominium fees. On August 17, 2004, the Bank refinanced this loan in the amount of \$500,000. On January 2, 2004, the Bank financed the construction of a 40B project in Needham totaling \$1,450,000. This 12-unit project consists of 9 unrestricted and 3 restricted 40B units.

In 2003, the Bank financed two loans totaling \$422,000 to a non profit organization in Needham for the rehabilitation of housing for adults with mental and physical disabilities. This non profit organization is a pioneer in establishing community living environments for needy and mentally challenged individuals.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

LENDING TEST (CONTINUED)

In addition, the Bank extended loans that have community development as its primary purpose. However, these loans do not meet the CRA definition of community development loans because they represent permanent financing secured by one to four family residential properties. Nonetheless, these loans deserve special mention because they provided housing to qualified low- and moderate-income individuals and to larger community development projects funded by the Bank. Additional information concerning these loans is provided under innovative and flexible lending products.

V. Innovative or Flexible Lending Practices

The Bank has a first time homebuyer program. This is the only product offered by the Bank that is considered flexible or innovative. This product is offered for loans on one to four family owner-occupied residential properties and provides reduced interest rates with the Bank's 5/1 adjustable rate mortgage, reduced closing costs, no points and flexible underwriting standards. Loans may not exceed \$250,000. The Bank originated 12 loans totaling \$2.8 million during the review period.

The Bank has worked closely with a local non profit housing organization in providing financing for affordable housing through the Chapter 40B process. The Bank makes concessions to borrowers who purchase a condominium unit under the Chapter 40B community development housing program including 95 percent financing without private mortgage insurance or exceptions to loan ratios. Additional flexible terms can be included if the borrowers are first time homebuyers. In 2004, the Bank financed three affordable housing units in Needham under this program, two of which were first time homebuyers, for a dollar total of \$462,500.

VI. Fair Lending Policies and Practices

The Needham Co-operative Bank's fair lending practices were reviewed to determine how they relate to the guidelines set forth in Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy. The Bank maintains a formal fair lending policy. The Bank's fair lending policy and procedures address specific areas such as loan review, staff training, fair lending procedures, a loan application and evaluation process as well as applicable rules and regulations regarding the anti-discrimination statutes.

All employees are provided with training appropriate to their job description and their responsibilities relative to the Bank's fair lending standards. This includes information regarding both technical requirements and the more substantive and subtle issues related to unintentional discrimination and quality of assistance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

LENDING TEST (CONTINUED)

Some members of the Bank's staff volunteer time at a variety of area organizations in need of their expertise. Primarily, the Bank markets its services and products through print media and the Internet. In addition, there are some employees who speak a second language, which aids customers who may not be fluent in English.

Minority Application Flow

A review of the Bank's residential loan application flow was conducted. The purpose of the review is to determine the number of applications the Bank received from minority applicants.

The Bank received a total of 266 residential applications from individuals within the assessment area during the period. A total of 11 applications, or 4.13 percent, was received from minority applicants. Of the total applications received by minority applicants, 8 or 72.73 percent were approved.

The Needham Co-operative Bank's application flow was compared to the 2003 aggregate data for all other HMDA reporters within the assessment area. In addition, the Bank's minority application flow was compared with the racial composition of the assessment area. The comparison of this data assists in deriving reasonable expectations for the institution's application flow.

Aggregate information for 2003, indicated that 5.25 percent of the total applications received from all other HMDA reporters were from minority applicants. By comparison, The Needham Co-operative Bank's minority flow is considerably lower than the aggregate, with 3.68 percent of total applications received in 2003. It is also noted that the Bank's minority application flow for 2003 significantly trails the assessment area's minority population rate. According to the 2000 U.S. Census Data, the Bank's assessment area contained a total population of 81,135 individuals. Minority individuals accounted for 7.24 percent of the total population. This figure is in sharp contrast to the rate of applications the Bank receives from minority individuals.

VII. Loss of Affordable Housing

The Bank's lending programs that include community development and flexible underwriting have assisted low- and moderate-income individuals to remain in their neighborhoods.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

LENDING TEST (CONTINUED)

Conclusion – Lending Test

The Needham Co-operative Bank's responsiveness to community credit needs is adequate. The majority of the Bank's residential and small business loans originate from inside the assessment area. The distribution of loans among borrowers of different income levels and among businesses of different sizes is adequate. In addition, the Bank's record of helping to serve the credit needs of low- and moderate-income borrowers, and businesses with gross annual revenues of \$1 million or less within the assessment area is reasonable. The Bank's use of innovative and flexible lending programs is marginal, and is similar to programs offered by other institutions. The Bank has granted a fair amount of community development loans. Based on the aforementioned, the institution's overall lending performance is considered "Satisfactory."

INVESTMENT TEST

The Investment Test evaluates the institution's record of helping to meet the credit needs of its assessment area through its use of qualified investments that benefit the assessment area or a broader statewide or regional area that includes the institution's assessment area. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

As defined under the CRA regulation, a qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose. Community development includes affordable housing for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low- and moderate-income geographies. The Bank has \$7,900 in qualified grants, which equates to .002 percent of total assets. The Bank has been actively searching for qualified CRA investments through an investment broker. Additionally, there appears to be a lack of investment opportunities within the Bank's assessment area. Based on the performance under the Investment Test the Bank's efforts are considered marginally "Satisfactory".

Charitable Contributions

The Needham Co-operative Bank has provided cash contributions to local organizations that provide education, training, affordable housing youth programs, and health and human services to individuals of limited income. In 2003 and 2004 the Bank provided qualified grants totaling \$4,200 and \$3,700, respectively, to organizations within the assessment

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

INVESTMENT TEST (CONTINUED)

area to organizations that offer education and training, shelters, neighborhood revitalization, and human services for those in need. This involvement promotes community development, as defined under the CRA regulation. Non-profit organizations such as the Charles River Association for Retarded Citizens address housing and other issues that affect elderly and mentally challenged individuals. Major donations to this organization were specifically targeted to help fund the expansion and enhancement of residential housing for clients with developmental disabilities.

The Bank has informed its investment broker of its desire to acquire additional CRA qualified investments. The broker indicated that due to high demand qualified investments are difficult to find.

The Bank has a number of municipal bonds in its securities portfolio; however, none of these bonds could be identified as having a community development purpose. In addition, the Bank has many government mortgage backed securities, but none were identified as qualified CRA investments.

Conclusion – Investment Test

The Bank's activities since the last CRA report of examination demonstrates that marginal efforts have been undertaken in addressing the local area needs through contributions and grants to local charitable and social service organizations. Although, the Bank's use of innovative or complex investments in support of community development initiatives is minimal, the opportunities to participate are not currently available within the assessment area. Also, the Bank's performance indicates that a marginally satisfactory level of qualified charitable contributions have been made during this review period. The majority of contributions went toward the support of non-profit organizations that assist low- and moderate-income individuals and provide health and human services, and education and training. Overall, The Needham Co-operative Bank is rated "Satisfactory" in this area.

SERVICE TEST

The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area by analyzing the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of the community development services.

The Needham Co-operative Bank was found to be Satisfactory in its service performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

SERVICE TEST (CONTINUED)

The following describes the institution's services.

RETAIL BANKING SERVICES

Distribution of Branches

The Needham Co-operative Bank's main office is located at 1063 Great Plain Avenue in downtown Needham. This location is designated as an upper-income census tract. Other full-service offices are located at 341 Washington Street in Westwood, 520 Main Street in Medfield and 458 Washington Street in Wellesley. These offices are also located in upper-income census tracts.

Hours of operation are reasonable and compare favorably with other local financial institutions. The Needham and Medfield offices are open 7:00 a.m. to 3:00 p.m. Monday through Thursday and until 7:00 p.m. on Friday. The Westwood and Wellesley offices are open Monday through Wednesday and Friday from 7:00 a.m. to 3:00 p.m. and until 7:00 p.m. on Thursday. All four full service offices are open on Saturdays from 7:00 a.m. to 12:00 p.m.

Record of Opening and Closing Branches

The Needham Co-operative Bank maintains a formal branch opening and closing policy, which outlines appropriate procedures to be followed, should the decision be made to open or close an office. No offices have been opened or closed since the previous examination.

Alternative Retail Banking Services

The Bank maintains ATMs at all of its locations. The ATMs are linked to the NYCE, CIRRUS and SUM networks. The Needham and Westford offices provide 24/7 walk-up ATMs, while the Medfield and Wellesley offices provide 24/7 drive-up ATMs.

The Needham Co-operative Bank offers a Debit/ATM Card, which can be used to transfer funds, and purchase goods and services at any establishment or terminal that displays the MasterCard logo. This card can also be used to make deposits or withdrawals, and check balances at the Bank's ATMs. There is no fee charged to customers for the usage of this card at the Bank's ATMs. The Bank allows four free non-Needham Co-operative Bank ATM transactions per monthly statement cycle. There is a \$1.00 fee charged for any other transactions during the cycle, as well as any transfers and balance inquiries at non-Needham Co-operative Bank ATMs.

The Needham Co-operative Bank has a telephone banking service as well as an online banking service, which offers 24-hour access to customer's accounts. Through this service, customers can check balances, make payments, review most recent deposits

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

SERVICE TEST (CONTINUED)

and withdrawals, and transfer funds. In addition, customers have the ability to print residential loan applications from the Bank's website.

Along with the Bank's Debit/ATM card, the bank also offers N.O.W. Checking, 18/65 N.O.W. Checking, and Passbook, Statement and Money Market Savings. Included in the Bank's portfolio are also various CD account products. Direct Deposit is offered for Checking Accounts.

The Bank has seven bilingual employees on staff. The languages spoke by Bank personnel include Spanish, Mandarin, Chinese, Thai, Swedish, Urdu/Hindi and Tagalog.

COMMUNITY DEVELOPMENT SERVICES

The CRA regulation defines a community development service as a service that is primarily for community development purposes and is related to the provision of financial services. The Needham Co-operative Bank's officers and employees are involved with community organizations that address economic and affordable housing development. Through these involvements, the Bank's staff lends their technical expertise, experience and judgment to these organizations. Detailed below are the Bank's qualified community development services.

- **Medfield Affordable Housing Committee:** This committee provides affordable housing to low- and moderate-income individuals. The committee oversees the ownership of many single-family dwellings. Applicants for these dwellings must meet income requirements and they apply through a lottery system. A Bank Vice President serves as a Board member and the Treasurer of this committee.
- **Needham Opportunities Inc:** This nonprofit organization is a subsidiary of the Needham Housing Authority and was formed to stimulate increased job opportunities and housing for low- and moderate-income residents of Needham. A Bank Vice President serves as a member of this organization.
- **Charles River Association for Retarded Citizens:** This is a nonprofit social service agency that provides advocacy, a variety of services and housing opportunities to children and adults with mental retardation and related developmental disabilities. A Bank Vice President serves on the Board of Directors.
- **The Wellesley Rotary Club;** This is a community service club that provides monetary help to various organizations in the community. Some of the organizations include Wellesley Friendly Aid Society and the Wellesley Food Bank. A Bank Vice President serves as a member of this organization.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

SERVICE TEST (CONTINUED)

Educational Services and Seminars

The Needham Co-operative Bank has not participated in any programs designed to educate consumers about banking and products that are available to meet their specific banking needs.

CONCLUSION – Service Test

As depicted above, The Needham Co-operative Bank's systems for delivering retail banking services are accessible to individuals of different income levels in its assessment area. The Bank's officers have provided a minimal level of educational and community development services, however it has increased from the previous examination. Therefore, the Bank's service activities are considered to be Satisfactory.

APPENDIX A

SCOPE OF EXAMINATION

THE NEEDHAM CO-OPERATIVE BANK

SCOPE OF EXAMINATION: The examination included an on-site analysis of all HMDA and CRA reported loans for the period noted below.

Residential aggregate loan data was reviewed during the examination and included comparative loan data of competing institutions. THE NEEDHAM COOPERATIVE BANK has one assessment area, which was reviewed using the large bank examination procedures.

TIME PERIOD REVIEWED: January 1, 2003 to December 31, 2004

PRODUCTS REVIEWED: HMDA-reportable Loans and Small Business Loans

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (1063 Great Plain Avenue, Needham, MA 02492)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.